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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company, San Diego Gas & Electric Company and Southern California Edison Company for Approval of Changes to Natural Gas Operations and Service Offerings.

Application 06-08-026
(Filed August 28, 2006)

**REPLY BRIEF
OF
SOUTHWEST GAS CORPORATION
(U 905 G)**

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Pursuant to the schedule set forth by Administrative Law Judge Thomas R. Pulsifer, Southwest Gas Corporation ("Southwest") submits its Reply Brief in this proceeding.

I. DISCUSSION

- A. THE COMMISSION SHOULD NOT APPROVE THE COMBINED CORE PORTFOLIO UNLESS THE COMMISSION CONDITIONS ITS APPROVAL ON PROVIDING COMPARABLE ACCESS TO INITIAL STORAGE RESERVATIONS FOR ALL WHOLESALE CORE CUSTOMERS AND PERMITTING LONGER TERM STORAGE CONTRACTS.

Establishing true core parity with San Diego Gas & Electric ("SDG&E") would allow Southwest and other wholesale customers of Southern California Gas Company ("SoCalGas"), such as Long Beach, to provide for their respective core customers at comparable rates, terms, and conditions. Southwest believes it is fundamentally unfair to burden Southwest's core customers and core customers of other wholesale customers with the uncertainty of access to and pricing of storage that SDG&E's core customers would avoid if the combined portfolio is approved.

Storage is the most reliable and very cost effective method of delivering gas during high demands periods.¹ Storage protects Southwest's core customers from the volatility of the high prices during the winter months and provides a reliable source of natural gas. The SoCalGas/SDG&E combined core portfolio and unbundled storage program would

¹ D.06-09-039, Findings of Fact 2, 22 and 23, mimeo at 171 and 173; and see DRA Opening Brief, at 11-13.

detrimentally impact Southwest's core customers, relative to similarly-situated SDG&E wholesale core customers. This would violate the Commission's wholesale core parity policies.

The Commission previously confirmed that wholesale core customers are not to be unduly disadvantaged in reservation of storage capacity in California.² SDG&E, Southwest, and Long Beach are all similarly-situated wholesale customers of SoCalGas, with equal responsibilities to provide for the natural gas needs of their respective core customers. Under the SoCalGas proposal, SDG&E is not unduly disadvantaged for access to storage because its core procurement portfolio is combined into the SoCalGas portfolio. The combined core portfolio storage requirements are reserved prior to releasing remaining storage capacity for the G-TBS unbundled storage program. Conversely, the other wholesale core customers, such as Southwest and Long Beach, are forced to participate in an open market for storage opportunities for their core customer needs, with no guarantee that they will be successful in bidding for the necessary capacity against much larger noncore customers. SDG&E wholesale core customers will thus enjoy access to storage capacity that is superior to access for the wholesale core customers of Southwest and Long Beach for initial reservations of storage capacity, if the combined core portfolio is approved.

This violates the very essence of core parity and the Commission policy that wholesale core customers are not to be unduly disadvantaged in reserving storage capacity. SoCalGas believes that core parity only requires that wholesale core customers receive comparable levels of service.³ Although the SoCalGas Opening Brief, at pages 65-66, discusses the pricing of wholesale storage service in response to Long Beach,⁴ no mention is made about access to storage and comparable service.

² *Re Natural Gas Procurement and System Reliability Issues*, D.93-02-013, A.92-03-038; 48 C.P.U.C. 2d 107 (February 3, 1993), Finding of Fact 33; See also Ex. 69, Burkholder Direct, (Long Beach), at 14, lines 16-18.

³ Ex. 9, Watson Rebuttal (SoCalGas), at. 31, lines 11-12.

⁴ SoCalGas Opening Brief at 65-66.

Equal access to storage is a fundamental and basic predicate for comparable service. In order to receive a comparable level of service that would be provided to SDG&E, then the other wholesale customers must receive the opportunity to reserve their core storage needs at the same time as SDG&E and prior to release of remaining storage into the G-TBS program. As pointed out by DRA, core customers should not be required to participate or compete with noncore customers in a storage auction.⁵ In order to maintain core parity, if the Commission approves the combined core portfolio, then the Commission should provide that none of wholesale core customers should be required to compete against noncore customers in a storage auction and that all wholesale core customers can reserve storage capacity at the same time and prior to release of storage capacity to the G-TBS program.

Like SDG&E, the other wholesale customers should be able to enter into storage agreements for existing storage capacity longer than the three-year limit proposed by SoCalGas under its revised G-TBS program. For this reason, the Commission should not adopt the proposed restriction to close SoCalGas Rate Schedule G-LTS, for long-term storage contracts, to new subscriptions for a five-year period.⁶ The Commission should also allow G-TBS contracts longer than three-years. The wholesale customers must have the flexibility to be able to enter into longer-term storage agreements for reliability and resource planning purposes in order to maintain core parity.

B. THE SOCALGAS WHOLESALE CORE PROCUREMENT OPTION DESERVES ADDITIONAL CONSIDERATION AND SHOULD NOT BE REJECTED SUMMARILY.

SoCalGas Witness Watson proposed a wholesale core procurement service option for Long Beach that is intended to achieve a more equal footing for core parity as between

⁵ DRA Opening Brief, at 14.

⁶ Ex. 8, Watson Direct (SoCalGas), at 5; and Ex.9, Watson Rebuttal, (SoCalGas), at 24. See also SoCalGas Opening Brief at . 52.

Long Beach and SDG&E core customers.⁷ Southwest supported this option in its Opening Brief, but mischaracterized it as only being for storage capacity, rather than the more comprehensive procurement service proposed by SoCalGas. Southwest wishes to correct this mischaracterization, while still supporting consideration of this wholesale core procurement option.

In its Opening Brief, Long Beach recommends rejecting this SoCalGas proposal because of conditions on the option that Long Beach believes restricts its ability to function as an independent utility.⁸ Long Beach also objected to a condition suggested by SoCalGas that it provide a retroactive payment for the differential between G-TBS rates paid by Long Beach in 2000 through 2007 and the rates paid by SoCalGas customers for storage.⁹ Southwest notes that the SoCalGas additional surrebuttal testimony for Mr. Watson appears to have deleted this requirement for the wholesale core procurement option.¹⁰ Southwest endorses this version of the wholesale core procurement option that excludes such a retroactive payment condition. The Division of Ratepayer Advocates (“DRA”), in its Opening Brief, recognizes that there may be some features Long Beach would likely prefer to avoid under the SoCalGas wholesale core procurement option, but then concludes that these core parity and equity issues should be addressed in the upcoming SoCalGas BCAP.¹¹ DRA also stated that deferring consideration of pricing for this option and these issues to the BCAP would allow other wholesale customers, such as Southwest, to weigh in on the issue and provide a broader context for the Commission’s consideration.¹²

Southwest agrees with Long Beach that there may be aspects of the SoCalGas

⁷ Ex. 65, Watson Additional Surrebuttal, (SoCalGas), at 4, line 9 through p.5, line 4.

⁸ Long Beach Opening Brief, at 17,

⁹ *Id.*

¹⁰ Ex. 65, Watson Additional Surrebuttal, (SoCalGas), at 4, line 9 through p.5, line 4.

¹¹ DRA Opening Brief, at 34-35.

¹² *Id.*

proposal that deserve additional debate, but disagrees with Long Beach that this wholesale core procurement option should be summarily rejected. Rather, Southwest believes the Commission should approve the wholesale core procurement option, without any retroactive payment condition, for all SoCalGas wholesale customers at this time. If the Commission does not approve the combined core portfolio, then Southwest agrees with DRA that this wholesale core procurement option should still be considered in the upcoming BCAP proceeding.

C. THE COMMISSION SHOULD APPROVE THE LONG BEACH STORAGE PRICING PROPOSAL AS IT IS THE MOST EQUITABLE FOR ALL WHOLESALE CORE CUSTOMERS AND IS MORE ALIGNED WITH COMMISSION POLICIES.

If the combined core portfolio is adopted, SDG&E core customers will be entitled to the same allocated costs and pricing for storage that is available to SoCalGas indigenous core customers. Conversely, Southwest and Long Beach wholesale core customers will be exposed to market-based pricing under the G-TBS. While there is conflicting data whether storage costs under G-TBS would be higher or lower in every year than under a fully-allocated, regulated storage cost of service,¹³ there is no disagreement that there are years, particularly when demands are high or flowing capacity is restricted, when market-based pricing results in higher storage costs compared to the combined core portfolio costs.¹⁴ What is more probable, on a prospective basis, is that the unit costs for storage for the combined core portfolio will decrease, since only 70 Bcf of storage is reserved for which costs would be allocated in the BCAP. Plus, there are a greater number of customers over which to spread such costs. This will accentuate the differential between G-TBS market-based prices and BCAP rates on a prospective basis and could easily lead to price discrimination between SDG&E core customers and the core customers of the other

¹³ See DRA Opening Brief, at 19; but, *c.f.*, Long Beach Opening Brief, at 17-18.

¹⁴ *Id.*

wholesale customers for storage service. Additionally, like SDG&E, the other wholesale customers should not have to participate in a storage expansion to obtain comparable long-term storage capacity and price certainty.

Long Beach proposes that if SDG&E's core portfolio is merged into SoCalGas's portfolio, the cost paid for storage by SDG&E should remain available to all other wholesale customers with core customers in the California energy market. The Long Beach LRMC storage pricing proposal provides for an equitable treatment among all similarly-situated wholesale core customers. These customers will benefit from a reliable and efficiently priced system. Long Beach requests that the Commission hold to its previous determinations that core parity shall allow for all core customers to pay the same unit rates for storage.¹⁵ DRA recommends that the Commission defer these core parity and equity issues to the upcoming BCAP so that a more complete determination can be made.¹⁶

Southwest believes that core parity includes not only comparability of service, but comparability of pricing and terms of that service. Southwest's core customers are and have been constituents of the same SoCalGas storage market as SDG&E and Long Beach core customers and all these core customers have the same basic needs for cost-effective and reliable storage service. As the Commission stated, Public Utilities Code Sections 494 and 532 generally require regulated utilities to treat similarly situated customers equally and to refrain from price discrimination as between such similarly situated customers.¹⁷ Southwest and Long Beach share the belief that their core customers should not shoulder the burden of higher storage costs for the benefit of increased revenues for SoCalGas shareholders under its proposed G-TBS incentive mechanism. Allowing all core customers to pay the same unit rate for storage protects all core customers from price inequalities and

¹⁵ Ex. 70, Burkholder Responsive (Long Beach), at 3.

¹⁶ DRA Opening Brief, at 35.

¹⁷ D.03-09-053, C.03-05-025, 2003 WL 22239324 (Sept. 18, 2003), Footnote 1.

discrimination, while simultaneously advancing the Commission's overall energy policy. Therefore, SoCalGas should be required to price storage services the same for all its wholesale core customers. Southwest supports Long Beach's proposal to seek equitable core parity in terms of reliability and pricing for all similarly-situated wholesale core customers and concurs with DRA's recommendation to more fully evaluate these storage pricing issues in the upcoming BCAP if they are not decided in this proceeding.

II. CONCLUSION

Southwest must consider the overall impact of the combined core portfolio and the SoCalGas wholesale core procurement proposal to its core customers, as well as protect its core customers from inequitable treatment. Core parity with SDG&E will facilitate Southwest's overall planning to provide reliable and cost-effective resources for its core customers. As such, storage is an important resource because it provides a reliable source of gas and provides for price stabilization during peak demands.

Southwest believes it is a matter of fundamental fairness and equity that all wholesale core customers are provided with equal access to initial storage reservations and SoCalGas should not be allowed to require some wholesale customers to participate in an open market auction for storage, while its affiliated entity, SDG&E, is sheltered from such risks and uncertainties. Additionally, allowing all wholesale core customers to pay the same unit rates for storage maintains core parity and the equitable treatment of similarly-situated wholesale core customers. Addressing storage cost issues in the upcoming BCAP provides a better opportunity for the Commission to make a more complete determination of these issues.

Southwest requests that, if the combined core portfolio is approved; then the Commission should include a condition that all wholesale core customers receive the same opportunity to reserve storage capacity at the same time and prior to release of capacity to

the G-TBS program. Additionally, Southwest requests that the Commission allow SoCalGas and the wholesale customers the flexibility to enter into longer term storage agreements and reject proposals that would suspend such tariffs or ability. If the storage pricing issues cannot be resolved in this proceeding, then Southwest concurs with DRA to address those issues in the upcoming BCAP.

Furthermore, Southwest supports approval of the SoCalGas wholesale core procurement option, as outlined in Mr. Watson's additional surrebuttal, for all wholesale customers. Approval of this wholesale core procurement option would provide an opportunity for certainty and reliability of storage resources and allow for core parity between all similarly-situated wholesale core customers.

Dated this 20th day of July, 2007 at Las Vegas, Nevada.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I certify that I have by mail, or by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the **REPLY BRIEF OF SOUTHWEST GAS CORPORATION** on the attached service list to A.06-08-026.

Dated this 20th day of July, 2007, at Las Vegas, Nevada.

/s/ Valerie J. Ontiveroz

An employee of Southwest Gas Corporation

A.06-08-026
Service List
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